

The background of the slide is a photograph of a vast vineyard. The rows of grapevines stretch far into the distance, leading towards a bright blue body of water under a clear sky. A large, semi-transparent dark grey circle is centered over the middle of the image, containing the title text. In the background, to the right, there is a red building with a white roof and some trees.

The Niagara Cluster: Ontario's Untapped Economic Engine

June 2023

OPPORTUNITY FOR NIAGARA

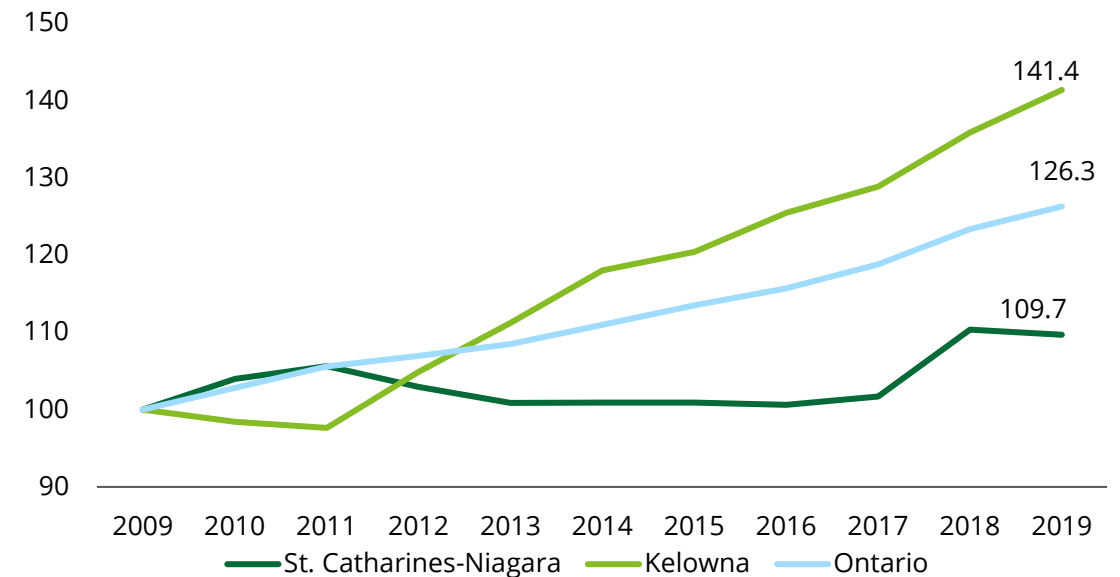
The province of Ontario is currently faced with an economic development opportunity for Niagara that could drive sustainable economic growth in the region for generations to come.

Deloitte has conducted extensive research on the world's leading wine jurisdictions to better understand the catalyst role they play in delivering economic benefits for their surrounding economies, as well as the best practices required for supporting and growing these wine industries.

If Niagara had the same economic growth rate as an advanced wine cluster region such as Kelowna, then it is estimated that investment in the Niagara regional economy would have been \$4 billion more between 2009 and 2019.

The Niagara Region could potentially realize this economic opportunity by implementing policies that mirror the world's leading wine jurisdictions, including British Columbia.

Figure 1: Real GDP Index from 2009 to 2019

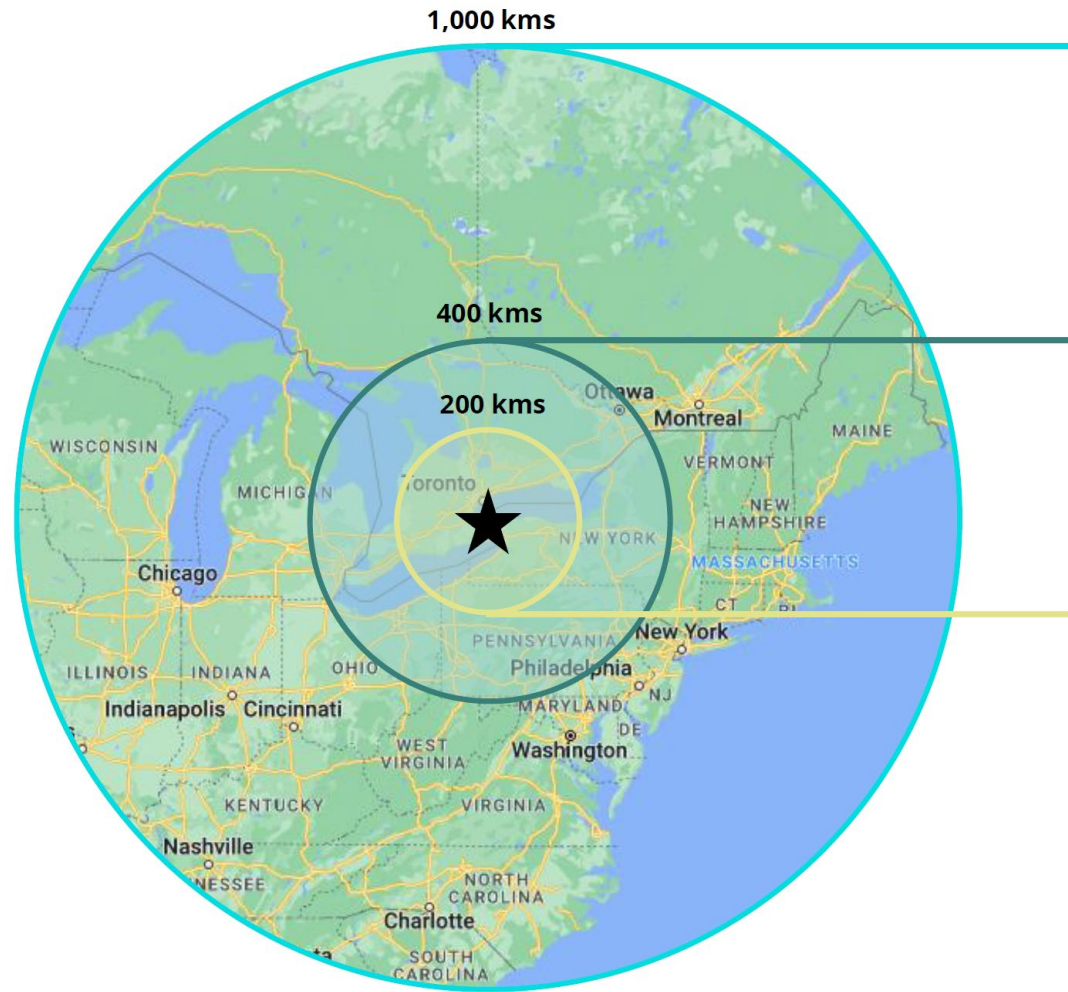


British Columbia – Canada's Domestic Case Study

Ultimately, if the Niagara Region experienced the same real GDP growth rate that Kelowna experienced from 2009 to 2019, Niagara Region's real GDP in 2019 would have been **\$4.5 billion more than what was realized**. Cumulatively, over the course of 2009 to 2019, the Niagara Region would have experienced an additional **\$20.5 billion in real GDP**.

160 MILLION PEOPLE WITHIN A SHORT FLIGHT OF NIAGARA

Niagara is the largest grape growing jurisdiction on the east coast of North America, with direct access to roughly 160 million travelers who are within range of a weekend visit or longer.



160 million people within a 1-2-hour flight

36 million people within a 4-hour drive

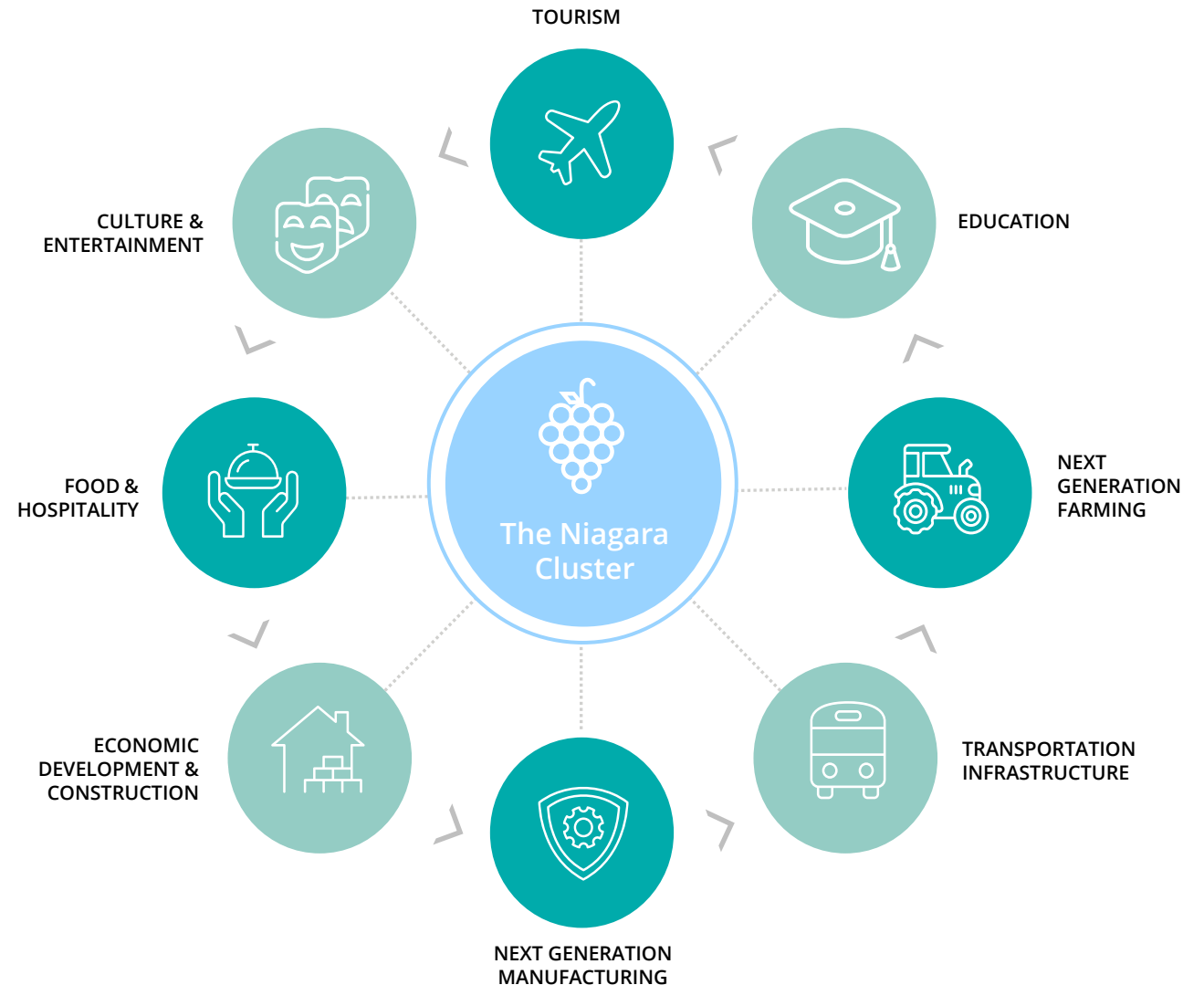
14 million people within a 2-hour drive

THE WINE INDUSTRY: A CATALYST OF THE NIAGARA CLUSTER

Clusters are areas of intense economic activity made up of companies, academic institutions, and non-profit organizations that boost innovation and growth in a particular industry.

The Niagara Region is home to the iconic Niagara Falls and privileged to have a micro-climate suitable for grape-growing. It is also home to the Niagara Cluster, a unique combination of industries that work together to promote sustainability, desirability, and human capital formation in the Province.

The wine industry plays a critical role as the catalyst for unlocking the Niagara Cluster's economic development potential. As such, a better supported wine sector could bring about additional benefits to other sectors within the Niagara Cluster.



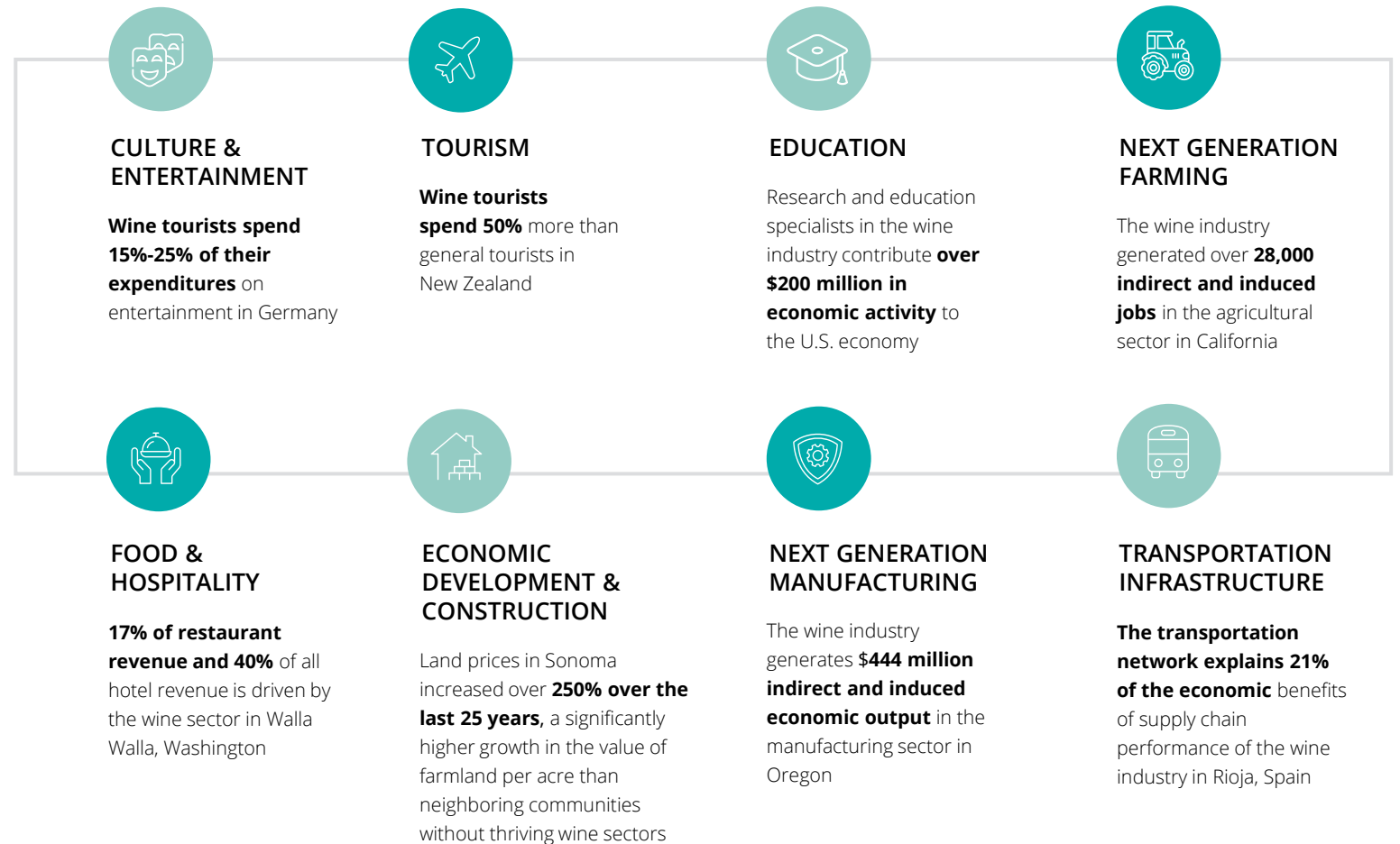
WINE INDUSTRY IS A CATALYST FOR ECONOMIC GROWTH AROUND THE WORLD

The economic contribution of the wine sector reaches far beyond the basic economic footprint stemming from its direct activities, impact from its suppliers, and from increased spending in the economy generated from incomes earned.

Comparative research of leading wine-producing jurisdictions illustrates how the wine sector serves as a catalyst for growth in adjacent sectors.

Every dollar that's invested in premium wine industries creates a ripple effect that's felt throughout the region's economy

Figure 2: The Wine Industry as a Catalyst for Growth in Other Sectors – Examples From Other Leading Jurisdictions



ONTARIO'S WINE SECTOR ECONOMIC CONTRIBUTION

In 2019, the direct economic contribution of Ontario's wine sector to Canada's GDP was over \$650 million, with a broader reach of indirect and induced impacts to Canada's GDP of over \$350 million, for a combined GDP contribution of over \$1 billion.

The impact of the wine sector is more than simply a measure of the production of wine. It also includes the "up-stream" impacts related to supply chain activities, and additional spending achieved through incomes earned.

In addition, we also account for the "downstream" impacts of Ontario wineries through the retail and wholesale channels. We included the down stream impacts as some wineries do own their own retail channels.

Figure 3:
Economic Contribution of Ontario's Wine Sector

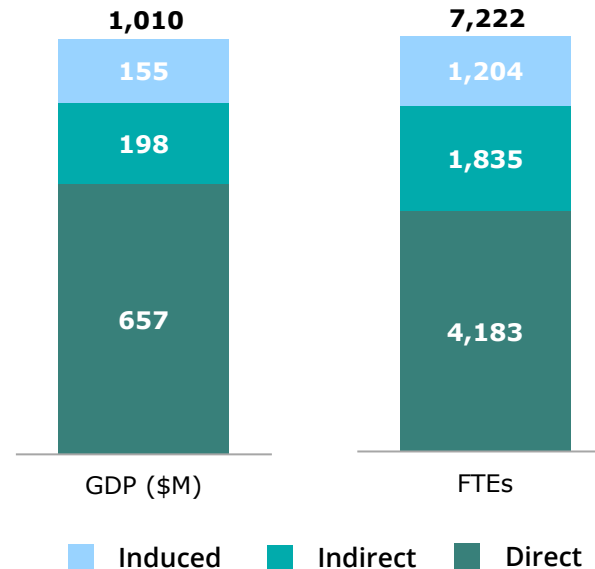
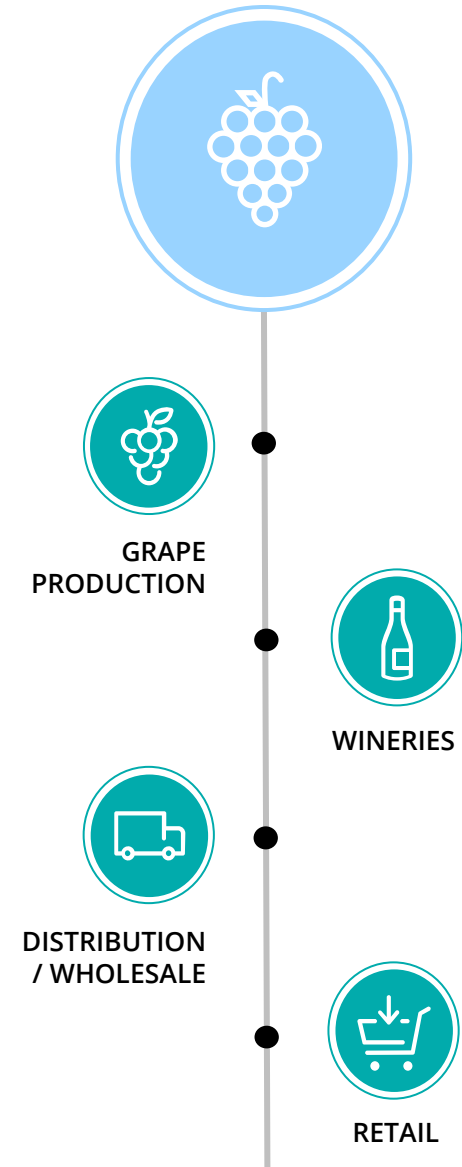


Figure 4:
The Wine Sector



NIAGARA'S WINE SECTOR ECOSYSTEM'S ECONOMIC CONTRIBUTION

The Wine Sector Ecosystem – which includes the wine sector as well as the food and hospitality industry, cultural & entertainment industry, and the tourism industry – contributed \$3.6 billion to the Niagara Region's GDP.

The impact of the industry is greater than just the aggregated economic contribution stemming from its production and sales.

Within the Niagara region, the wine sector exists within a broader ecosystem consisting of a unique set of industries that are heavily interrelated.

Figure 5:
Economic Contribution of
Niagara's Wine Sector Ecosystem

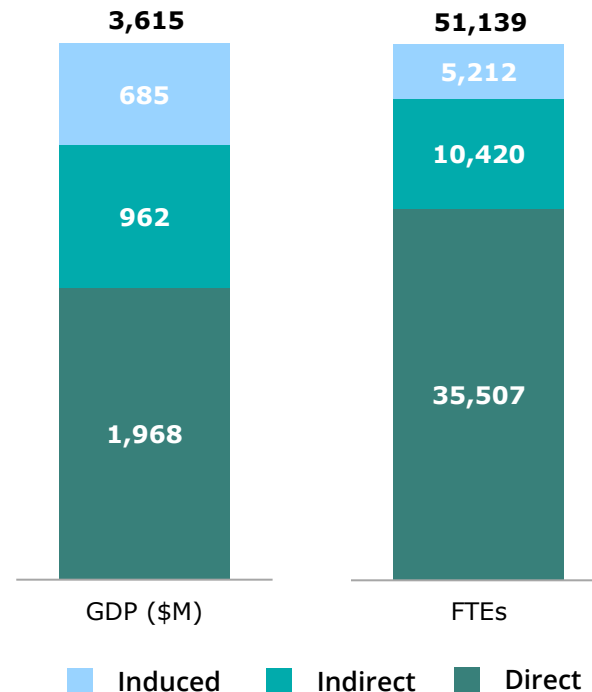
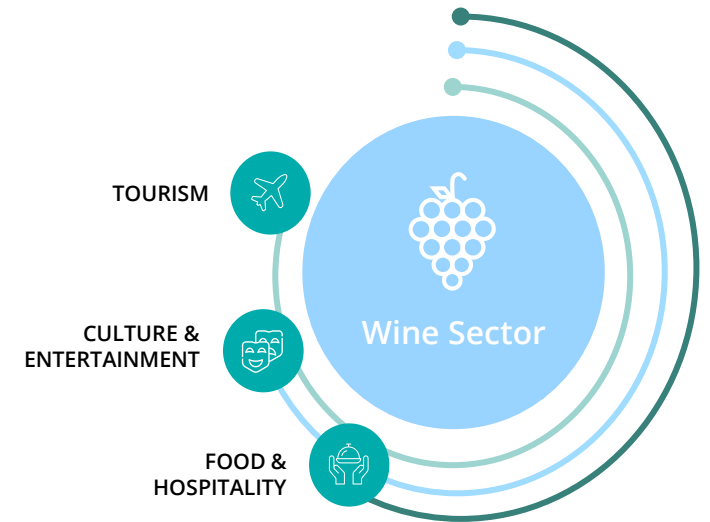


Figure 6:
Niagara Wine Sector Ecosystem



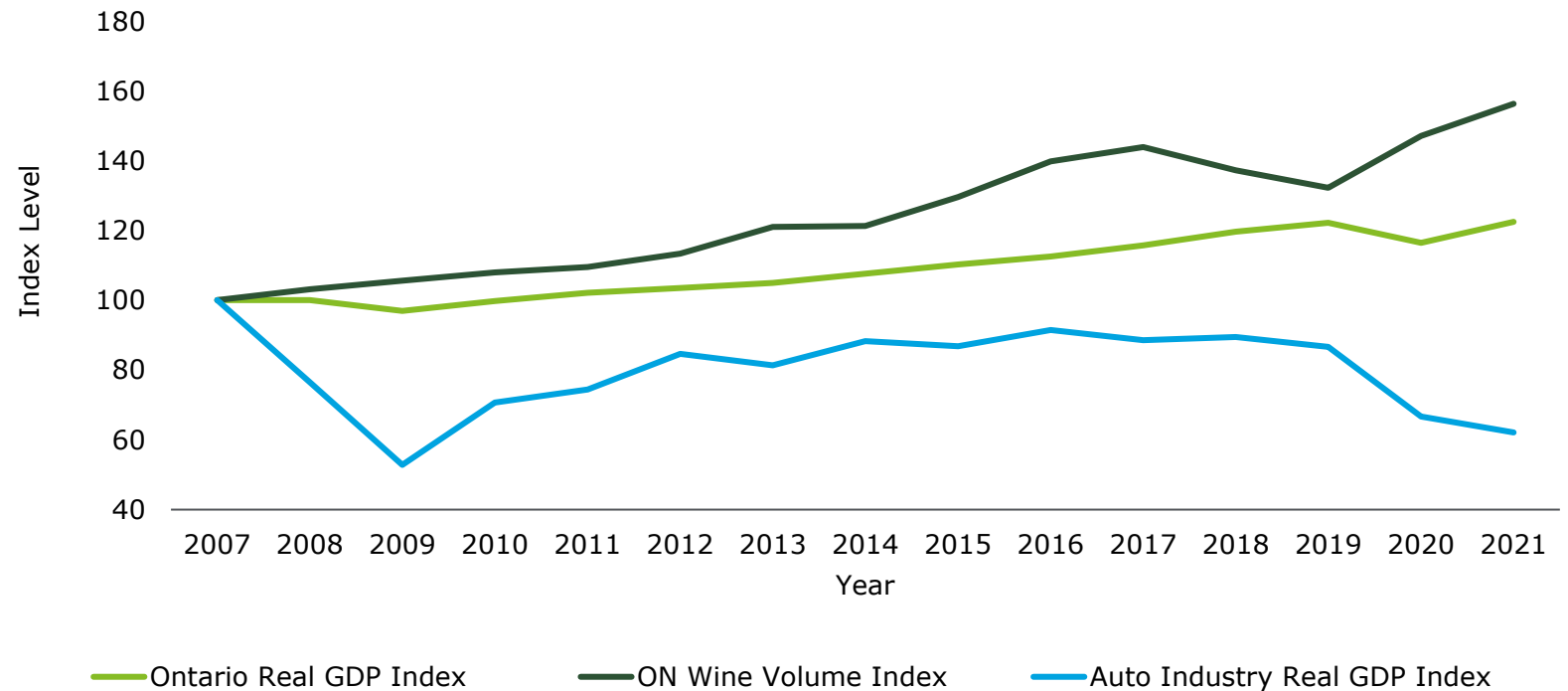
When we consider the food and hospitality industry, cultural & entertainment industry, and tourism industry along with the wine sector, we recognize that the contribution of this ecosystem is much larger than the wine sector in isolation.

FOUNDATION FOR SUSTAINABLE GROWTH

Between 2007 to 2021 the Ontario wine sector sales volume for Canadian Products had **an annual growth rate of 3.2%, compared with a 1.5% real GDP growth rate for the broader Ontario economy** in that time period.

The industry's growth in revenues is relatively consistent over time. This makes the wine industry not only a reliable partner for economic contribution, but its stability also serves as an anchor for any future economic development strategy.

Figure 7: Ontario's Wine Sector Performance



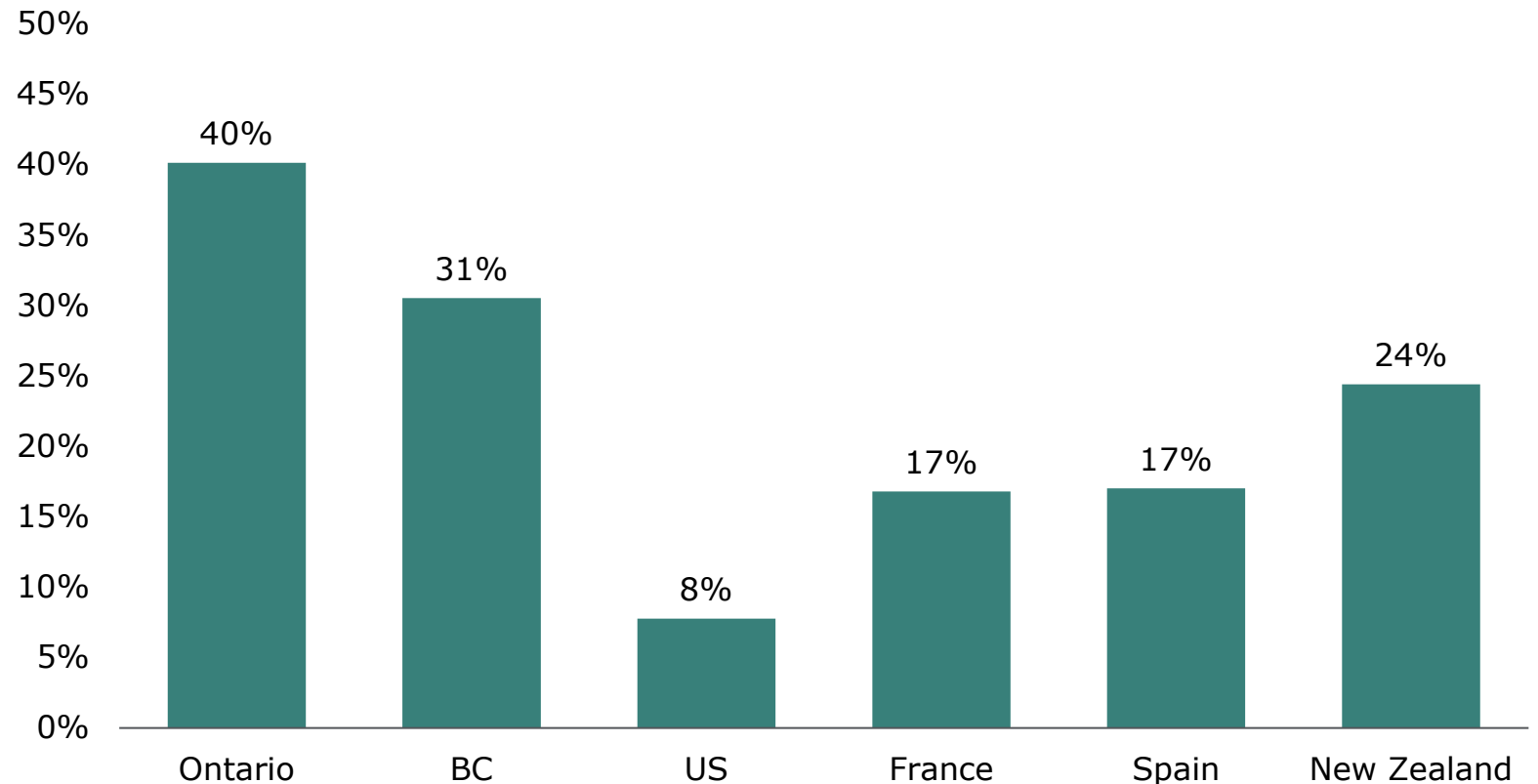
Certain industries often relocate their production facilities when presented with financial incentives for doing so. The wine industry on the other hand is an industry rooted for the long-term. This is due to both the long investment horizon associated with investing capital in vineyards, as well as the unique topographies that are required for growing premium wine grapes that limit the industry's ability to relocate.

HIGH TAXES FOR WINE IN ONTARIO

As revealed from our global scan, the Ontario wine industry faces a relatively higher tax burden than wine industries in other leading jurisdictions.

As seen in Figure 8, Ontario's tax regime is inconsistent with global best practices. This can potentially restrain the level of employment and economic activity that the sector produces for the Province.

Figure 8: Share of Taxes on Products as a Percentage of Domestic Sales



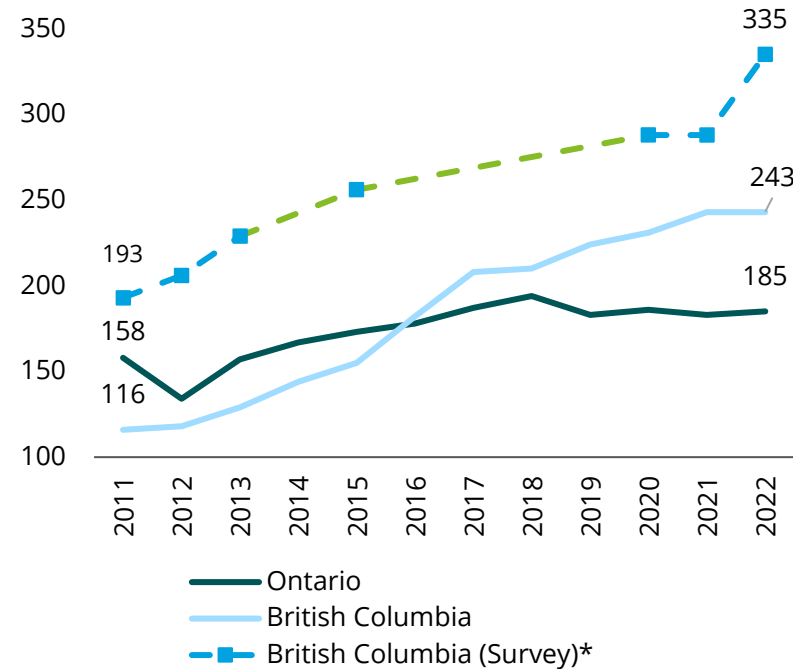
Ontario's tax policies make it difficult for local wine producers to compete with foreign subsidized imports in Ontario's domestic market. The most notable differences between Ontario's system of tax and regulatory policies compared to the leading wine jurisdictions from our jurisdictional scan include:

- 1) The relatively higher tax burden of the Ontario wine industry, and wine products in the province.
- 2) Ontario's wine producers do not have direct delivery privileges in their own market.
- 3) Leading wine jurisdictions from around the world are sustained with supportive financial and regulatory policy.

ONTARIO'S DISTRIBUTION SYSTEM: FOREIGN VERSUS DOMESTIC WINES

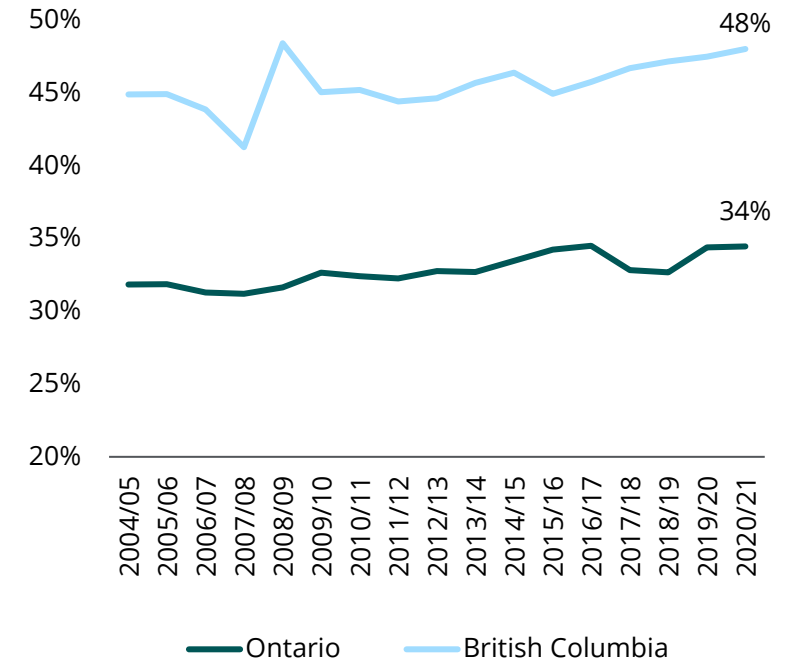
If the Ontario wine sector's domestic market share by sales of 33% (in 2019) increased to that of British Columbia's domestic market share by sales of 47% (in 2019), this could provide more than \$800 million in additional GDP over a ten-year period to Ontario's economy. A closer collaboration between the LCBO and the Ontario wine industry to ensure greater access will provide greater economic benefits to Ontario.

Figure 9: Total Number of Wineries



There has been a significant level of growth in the number of wineries in BC over the last decade. This growth could potentially represent billions of dollars in capital investment that could have been made in Ontario if the policy infrastructure was in place to support such investments.

Figure 10: Share of Domestic Wine Sales Relative to Total Wine Sales



Our global scan of best practices of leading wine jurisdictions reveal that these jurisdictions generally have supportive policies in place to enable their wine industry to dominate their domestic market. There are opportunities in Ontario for supportive policy as it relates to the domestic retail system to ensure local producers enhance their domestic market share.

*The number of wineries identified in Ontario and British Columbia in solid line are sourced from Statistics Canada. The survey data on British Columbia wineries is retrieved from the annual reports of Wines of British Columbia, an organization which represent the interests of British Columbia wineries through marketing, communications, and advocacy of their products to all stakeholders. There exists a data gap in the annual reports of Wines of British Columbia in 2014, and between 2016 and 2019. Therefore, data between these years, outlined in green, in the graph are estimated.



POTENTIAL FOR THE FUTURE

As seen by the successful growth in the Kelowna Region, the Niagara Region has the opportunity of becoming a flourishing and robust economic region that includes a world-class wine, tourism, hospitality, and agricultural economy.

Canada, Ontario and the Niagara Region should consider best practices from leading jurisdictions to cultivate the wine sector and foster its premium reputational capital in its home market. Other leading wine jurisdictions have shown what the potential economic uplift could look like. Following best practices and good policy, the Niagara Region could realize this economic opportunity and achieve its full potential.

Given the right conditions, with enhanced and robust regional economic development policies, future potential uplift for the Region could amount to at least **\$8 billion** in additional real GDP in a generation.



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